



City of Trinidad Proposed Workforce Housing Development Strategies and Incentive “Housing Now Program”

To: Mayor Rico and Trinidad City Council
Through: Mike Valentine, City Manager
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Background:

The city asked MYRP to propose housing incentives to spur construction of privately-owned workforce housing. MYRP conducted three meetings with the council, local building and development community, and state funders, including DOLA and CHFA. The city council was just presented the preliminary findings of the recently completed housing needs assessment. MYRP's three recommendations below stem from that needs assessment and development community input. In addition to these specific recommendations, MYRP urges the council to pair the incentives with state housing program funds.

Housing Needs Assessment Key Findings:

There are several primary findings in the Root Policy Research Housing Needs Assessment (2022) that shape MYRP's recommendations. Surprisingly, there is a large housing needs gap in high end workforce housing units and rentals. This is usually a market that the private sector services because of higher developer profits. While there is also a considerable need for low income rentals, traditional housing programs including low income housing tax credits (LIHTC) exist to assist this need. MYRP recommends that LIHTC projects would have access to city incentives to support addressing this housing need. Factors from the assessment that weighed on recommendations include:

- Growth and need for housing units that support single and two person households, especially rentals
- Loss of student enrollment in the school system (-612 students in past 12 years)
- Current pipeline of potential projects could add 57 rental units
- Need for an additional LIHTC project
- Large housing ownership need gap for households earning over 100% AMI
- Significant increase in vacation rentals
- A need for “move-up” homes and luxury rentals with community amenities to attract skilled labor and provide opportunities for economic mobility within the city

The assessment points to the project pipeline and the local development community readiness to provide much needed housing stock to the community. However, several of these projects have funding gaps and a combination of city incentives and external state and federal grants can fill them. MYRP recommends that the city should provide direct incentives to projects that target workforce priced rentals and for sale units that are not typically funded by affordable housing programs.

Development Community Interview Feedback:

In October MYRP interviewed the development community and hosted a public meeting to gather feedback on hurdles they face. There were several surprising discoveries and several expected issues that are suppressing housing construction efforts. These hurdles include:

- High material costs and supply chain issues driving up construction costs
- 20% higher labor costs than neighboring communities
- Large gap financing need between affordability and final new construction or rehabilitation housing costs
- Potential projects in development pipeline need incentives from city to complete capital stacks
- Entitlement issues and tax issues preventing development on already approved and improved vacant subdivision lands

MYRP staff was surprised by the cascading consequences of a lack of local construction labor. The additional costs are attributed to the need for this labor to be provided housing in short-term housing accommodations such as hotels. These incremental costs add up and are driving final budget numbers to final housing costs that are unattainable to the local workforce. These increased labor costs are especially prevalent in larger projects. While outside the scope of MYRP's work, continued support of Trinidad State College's trades programs would help to increase available labor in workforce in the future.

Interviews with developers in the community resulted in numerous incentive ideas that would potentially support getting housing projects moving forward. While MYRP emphasized to the development community that incentives would require builder accommodations to ensure long term affordability. Incentive ideas that were suggested by the development community and discussed during the public meeting on October 25th included:

- Utility tap fee incentives
- Backstop financing guarantees
- Gap funding assistance
- Abatement assistance
- Special limited partnerships
- Infrastructure assistance
- Direct matching grant funds from City

These discussions with the development community and the following conversations with the council and state funders resulted in consensus that any incentives would need to at a minimum achieve the following:

- Be able to assist or leverage additional funding such as grants or assist in the capital stack of larger housing projects
- Require mechanisms that protect affordability (deed restrictions, restrictive covenants, or rental agreements)
- Provide economic incentives to assist the current pipeline of projects or tackle the vacancy of existing vacant rental units in the downtown

- Provide short-term incentives to address the city’s immediate workforce for sale housing needs
- Provide long-term incentives that allow attainable workforce housing projects to leverage outside funding

Workforce Housing Incentive Program Executive Summary:

MYRP recommends three different city incentives of in the form of a \$2.5 million contribution from the City’s marijuana tax fund reserves over the next two years. Attached to this memo is additional information on each of the proposed incentive programs. The goal of these incentives is to create a public/private development environment to rehab or build 105 new workforce housing units over the next two years.

2022-2024 City of Trinidad Workforce Housing Incentive Program			
	Program Unit Creation Goal	Max Funding per Unit	Total Budget
Downtown and Vacant Residential Program	40 Rehab Vacant Units	\$25,000 per Unit	\$1,000,000
New Workforce Housing Now Program	65 New Workforce Units	\$15,000 per Unit	\$1,000,000
Affordable Housing Utility and Tap Fee Deferral Program*	N/A	\$10,000 per Unit	\$500,000
Total	105 Units		\$2,500,000

*Continued Annual Appropriations of 4%

There are three programs that MYRP recommends—two are short term (Downtown and Vacant Housing and New Workforce Now Housing) and one long-term program—(Utility and Tap Deferrals). They are described below, but it is important to keep in mind that these incentives equate to less than 10% of the cost of building a new housing unit (\$250,000). The city is filling the gap, not supplanting private efforts. All of the incentives can also be leveraged with state grants or programs by the development community to access additional development capital.

The **Downtown and Vacant Housing Program** targets incentives to downtown property owners to rehab existing units. A recent city survey of the downtown found that there are approximately 65 vacant units that could be placed back into the workforce housing rental pool. This program would provide property owners an incentive to repair these units to bring them back into the rental market. Property owners who receive funds would enter into a 2 year voluntary rental agreement and to keep rents at or below 100% AMI and a restrictive covenant for the units to be maintained as long-term rentals into the future. This incentive program is being recommended to last only until the end of 2024 or until all the funds have been expended (whichever is sooner).

The **New Workforce Housing Now Program** targets incentives to develop new housing units at price points that achieve workforce affordability. These new units would need to hit the workforce housing price point of \$294,000. This price point is the targeted 100% AMI price point for a three bedroom unit as cited in the needs assessment. This incentive could also be eligible for projects that offer rental units to occupants under 100% AMI. To receive the incentive, the builder/developer would be required to execute a restrictive covenant on the property at the time of certificate of occupancy prior to the sale to a new owner. The restrictive covenant would limit future occupancy of the unit as a primary residence and to require a minimum of one occupant of the housing unit to being employed in Las Animas County fulltime at the time of any resale to a future buyer. The new owners will also be required to file income taxes in Colorado. This incentive program is being recommended to last only until the end of 2024 or until all the funds have been expended (whichever is sooner).

The **Affordable Housing Utility and Tap Fee Deferral Program** is a long-term incentive that targets more traditional affordable housing projects that result in deed restricted properties. These affordable housing projects typically use state grants, federal tax credits, or other housing programs to subsidize housing costs. This incentive will provide meaningful funding to the overall capital stack financing and gap funding for these types of projects. These projects will have deed restrictions required by the funder or program. The advantage to this incentive is that the city knows exactly what was subsidized in the project and it is also done paid at the time of building permit when a project is breaking ground. Also, the fees are transfer to the city's gas, water, electric, and wastewater department funds. This program could be added to the two short-term incentive programs above to the any tap fees due for those projects that qualify, as these projects will be required to have restrictive covenants to protect the unit's occupancy. MYRP recommends an initial balance transfer of \$350,000 to bring this fund to \$500,000. Then, a 4% yearly appropriation of the marijuana sales tax collections is highly recommended to replenish the fund. Developers could rely on this long-term incentive and could incorporate it into their planning. This assurance pairs well with state incentive and grant programs.

Next Steps:

The council should weigh which incentives they would like to consider for formal policy adoption at a future council meeting. Each incentive has an attached fact sheet detailing more information on eligibility, purpose, requirements, and administrative processes.